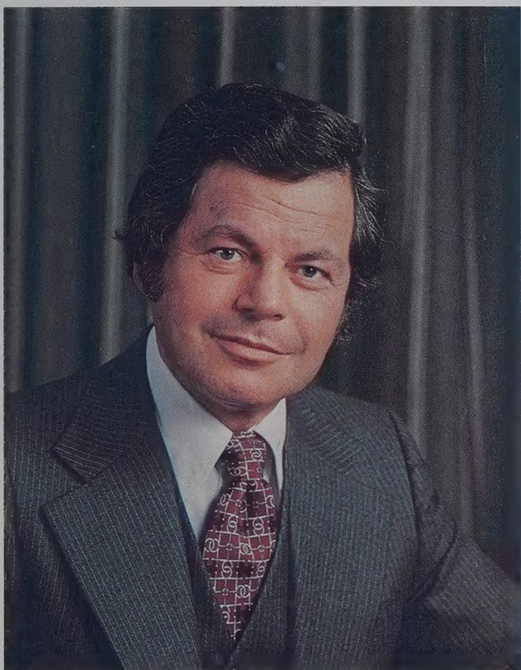
STEINBERG Inc.

Annual Report 1978

Summary of Results
(thousands of dollars)

	1978	% change
Sales	$1,903,201	+8.5
retail food	1,620,493	+9.3
general merchandise	229,020	—
manufacturing (external sales)	28,333	+25.5
restaurants	25,355	+27.5
Net Earnings	25,730	+17.5
retail and manufacturing operations	21,485	+14.5
real estate operations	4,245	+35.7
per common and Class "A" share	$ 3.65	+17.7
per dollar of sales	1.35¢	+8.0
Dividends per common and Class "A" share	72¢	+9.1
Working Capital	81,968	+9.9
Shareholders' Equity	198,485	+10.5
per common and Class "A" share	$ 27.57	+11.8
return on equity	12.96%	+6.4

Report to the Shareholders



Melvyn A. Dobrin, Laszlo ©
Chairman

Jack Levine, Laszlo ©
President

The unexpected passing of Sam Steinberg, on May 24, 1978 ended an era which began in 1917 and during which, under his wise and farsighted leadership, a tiny food store on St. Lawrence Boulevard in Montreal evolved to become one of Canada's largest, diversified retailing enterprises.

Sam was a most unusual man — one who assumed the management of the family business while still in his teens and whose natural ability and simple humanity earned him the respect, admiration and affection of countless friends, employees, business associates and customers. These qualities assured him the strong support which made it possible for him to put into practical application a host of innovative ideas that have benefitted Canadian consumers and, in fact, have been widely adopted throughout the world.

During the last year of his life, the Steinberg group of companies registered sales of more than $1.9 billion, realized net earnings after taxes of $25,730,000 and provided well-paid employment to more than 25,000 Canadians.

It was a record year, despite persistent inflation and a high level of unemployment, both of which influenced the patterns of consumer spending and affected operating margins. Consolidated net earnings increased by 17.5% over those of 1977. Earnings per Common and Class "A" share rose from $3.10 to $3.65 while, on a per dollar of sales basis, net earnings increased to 1.35 cents from last year's figure of 1.25 cents.

It was a year in which the Company maintained its position of leadership in the marketplace. To a considerable extent this was due to consistent presentation of a low-price, high-quality image and to increased emphasis on providing timely, helpful information to consumers through public demonstrations and imaginative advertising.

Sam Steinberg would have been proud of these achievements, but not entirely satisfied. In his philosophy, change was the one sure constant in business life; complacency was the deadly sin. Sam's credo, like that of his mother Ida who founded the business, was that Steinberg's must always strive to do better, to give greater value to its customers, to *merit* in every way the increased confidence of the public.

Throughout the years the Company's success has been due, in very large measure, to its faithful adherence to that basic philosophy. The Directors believe that the search for constant improvement and the willingness to assume the risks inherent in innovation must continue as fundamental principles underlying the planning for the future.

In order to ensure the successful continuity of operations with a minimum of disruption following the Chairman's death, the Directors on June 5, 1978 named Melvyn A. Dobrin to succeed Sam Steinberg as Chairman and Jack Levine to succeed Mr. Dobrin as President of the Company. At the same time, the Executive Committee was reorganized so as to

assume a more active role in the major decisions affecting the Company's existing operations and in its planning for future growth. The following persons comprise the Executive Committee: Melvyn A. Dobrin; Jack Levine; Nathan Steinberg, Vice-Chairman; Mitzi Dobrin, Group Vice-President, Miracle Mart; James N. Doyle, Executive Vice-President, Legal & Corporate Affairs; and H. Arnold Steinberg, Executive Vice-President, Finance & Development.

The Executive Committee has been meeting on a regular weekly basis, dealing with important issues of current concern and devoting considerable time to long range strategic planning.

Essentially, such planning involves two goals: the ensuring of the viability of the existing business base and the determination of the proper direction for future growth. To achieve these goals, the Executive Committee is endeavouring to:

1. determine how best to maintain the Steinberg tradition of entrepreneurial excellence and its concern for people both at work and in the marketplace;
2. map out areas for major concentration of capital investment in both existing and new businesses;
3. determine the means of financing likely to be required to meet projected capital investment needs;
4. determine the organization structure best able to support the Company's objectives;
5. determine strategies to meet the expected manpower requirements;
6. establish key ratios for medium and long term growth, such as:
    a) Sales growth rate;
    b) Profit growth rate (before and after tax);
    c) Earnings per share growth rate;
    d) Return on Capital Employed;
    e) Return on Equity;
    f) Rates of Funded Debt to Capital Employed;
    g) Interest Coverage.

Such planning, of course, is not an exact science. Its benefits cannot be accurately predicted. However, the Directors and the Executive Committee are convinced that this function is absolutely essential, given the diverse nature of the Steinberg enterprises, the various geographic and political regions in which they operate and the constantly evolving social and economic conditions which affect their performance.

Optimistically, if our planning is well done, it will allow the decision makers at various levels of the Company to evaluate proposed decisions against approved goals and strategies, it will substantially reduce short-range "expediency" planning, and assure a more orderly, rational growth of the entire enterprise.

Any business is only as good as the people who are running it. Our business is committed to healthy growth; therefore the quality and the depth of its future management must be assured. Accordingly, the process of identifying middle and upper level executives who have the potential to assume greater responsibility has been given high priority and new opportunities are being provided for such persons to broaden their managerial knowledge and experience. In this way we hope to have an adequate group of qualified people available to administer the various interests of Steinberg Inc. over the next decade.

The business environment in which we live is unsettling. Inflation, unemployment, high taxes and excessive government spending, labour unrest, unsatisfactory productivity and the threat of political separation are negative factors which undermine the confidence of businessmen throughout Canada — and with reason. Yet we must retain a sense of proportion. As a people we have lived through more difficult times; we surely have the collective will to survive and to progress in the face of today's challenges.

At least that is how Sam Steinberg would have viewed it. He did not hesitate to expand in "the bad old days"; he moved forward while others nursed their fears.

That attitude is his legacy to those who now direct the diversified enterprise that bears his name.

Mel Dobrin Chairman of the Board

Jack Levine President

November 3, 1978

SAM STEINBERG, O.C.

1905 - 1978

By good conduct is meant
common honesty in business life,
faithfulness to duty,
ambition in business and profession,
filial obligation,
the use of talents,
and always and everywhere,
simple human kindness and love.

Randolph Bourne

Financial and Operating Review

Steinberg Inc. is able to report good overall results for its operations for the fiscal year ended July 29, 1978. Sales are now approaching the $2 billion mark and a record level of overall profitability was achieved. Working capital, total assets and shareholders' equity are all at the highest levels ever achieved. Earnings per dollar of sales and return on shareholders' equity both improved in the year.

Sales — $1.9 billion

Consolidated retail and manufacturing sales (excluding internal sales) totalled $1,903,201,000, an increase of 8.5% or $149,125,000 above the sales of $1,754,076,000 achieved in the last fiscal year.

Consolidated sales and operating revenue for the year totalled $1,917,529,000 in comparison to $1,767,687,000 in fiscal 1977.

Net Earnings — $25.7 million

Consolidated net earnings showed a major increase of 17.5% from $21,895,000 to $25,730,000. Earnings per common and Class "A" share equalled $3.65 compared to $3.10 last year, while earnings per dollar of sales increased from 1.25 cents to 1.35 cents.

The significant increase in earnings resulted primarily from improved results of our Quebec retail food operations, good increases by Miracle Mart and in our real estate operations coupled with a return to normal profitability by Phénix Flour. The results from our food processing subsidiary, Steinberg Foods Limited, were down significantly, while those of Cartier Sugar, Intercity Food Services and Cardinal Distributors declined slightly.

Income Taxes

The provision for current and deferred income taxes for the year amounted to $18,937,000 in comparison with $19,445,000 for the previous year. This reduced tax provision, despite higher pre-tax earnings, arises principally from the inventory tax allowance in effect for the full year. The effective tax rate of 41.8% also takes into account the lower tax rate for our manufacturing subsidiaries, as well as tax adjustments in the Ivanhoe group of companies to account for equity in non-consolidated companies.

The legal action taken in 1965 by the Deputy Minister of Revenue of Quebec claiming $902,000 as income taxes on profits made through the disposal of capital assets during the period 1951 to 1963 was rejected by unanimous judgment of the Quebec Court of Appeal. Judgment had originally been rendered in the Company's favour some years ago by the Quebec Superior Court; the recent judgment is not being appealed further.

Assets and Liabilities

At the year end, total consolidated assets had increased by more than $48 million to $570,455,000. This increase is accounted for by the level of cash flow generated from our operations and by long term borrowings. This increase in assets is represented by net additions to developed real estate and to retail and manufacturing equipment and facilities of $18.2 million, increased inventories of $10.7 million and an increase in short term marketable securities of $9.7 million.

Capital expenditures during the fiscal year declined slightly to approximately $42 million. During the year we opened five new food supermarkets and one Miracle Mart department store, as well as carrying out major modernizations and renovations to 14 food stores. Total fixed assets as carried on our books at year end amounted to $312,716,000 in comparison with $293,955,000 last year. Long term debt was increased during the year by $7.5 million to $206,929,000.

Depreciation and amortization, which is computed on the straight line method at rates sufficient to amortize the costs of assets over their estimated useful lives, totalled $23,161,000.

At year end current assets amounted to $225,056,000, an increase of $26,704,000, while current liabilities had increased by $19,347,000 to $143,088,000 resulting in a working capital ratio of 1.57 to 1. Working capital (current assets minus current liabilities) equalled $81,968,000, up from the amount of $74,611,000 reported last year.

Dividends and Shareholders' Equity

Dividends paid by Steinberg during the year to all its shareholders totalled $5,233,000. Common and Class "A" shareholders received quarterly dividends aggregating 72 cents per share. Dividends on the Series "A" Preferred shares amounted to $5.25 per share and to $2.45 per share on the Subordinated Preferred shares.

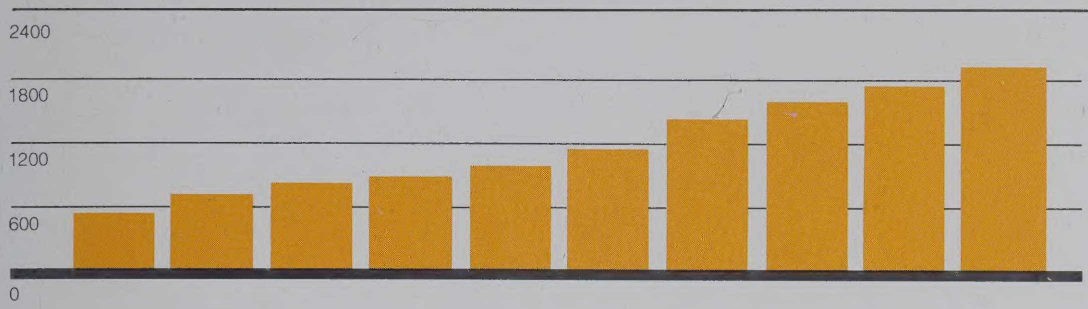
A total of 26,450 Class "A" shares were issued during the year to employees under stock option plans for a total consideration of $317,400. We redeemed 1530 Series "A" Preferred shares and 10,200 Subordinated Preferred shares, as well as purchasing, at a tendered price of $91.9375 per share, a further 10,200 of the Subordinated Preferred shares. Supplementary Letters Patent were obtained which reduced the authorized capital of the Company by the cancellation of the shares which had been redeemed and purchased during the year. Subsequent to the year end an additional 10,200 of the Subordinated shares were redeemed.

At the end of the fiscal year the book value of shareholders' equity had increased by $18,784,000 to $198,485,000 or $27.57 per common and Class "A" share outstanding. The rate of return on equity improved to 12.96% from 12.18% reported last year. Retained earnings increased to $174,226,000.

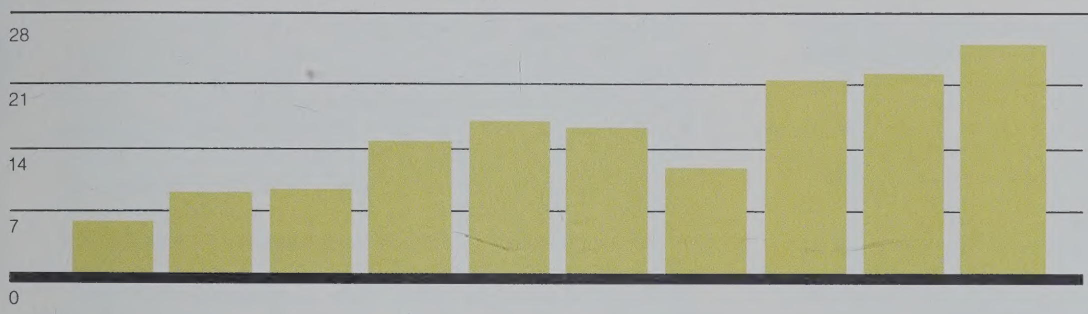
Capitalization of Surplus

By the adoption (also after the year end) of a By-law which was later confirmed by Supplementary Letters Patent, the Company has capitalized $25 million of its surplus.

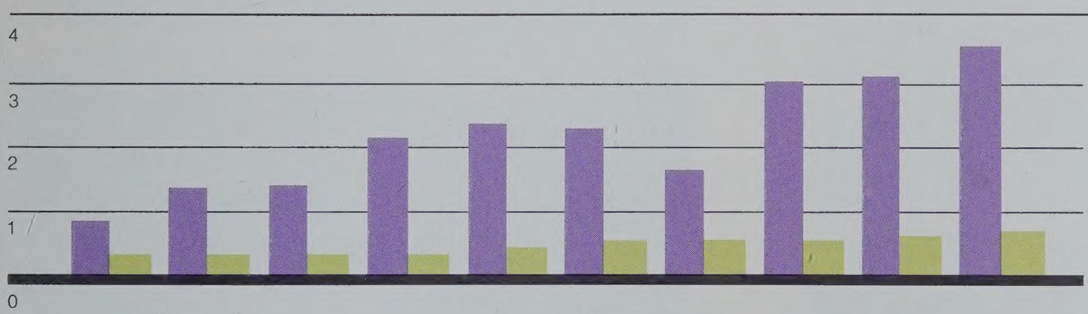
This action does not change the present capital structure of the Company nor does it involve any cash



Sales
in millions of dollars

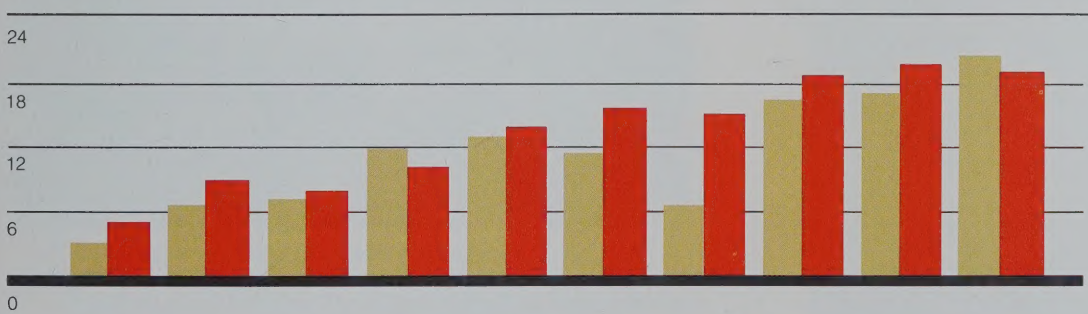


Net Earnings
in millions of dollars



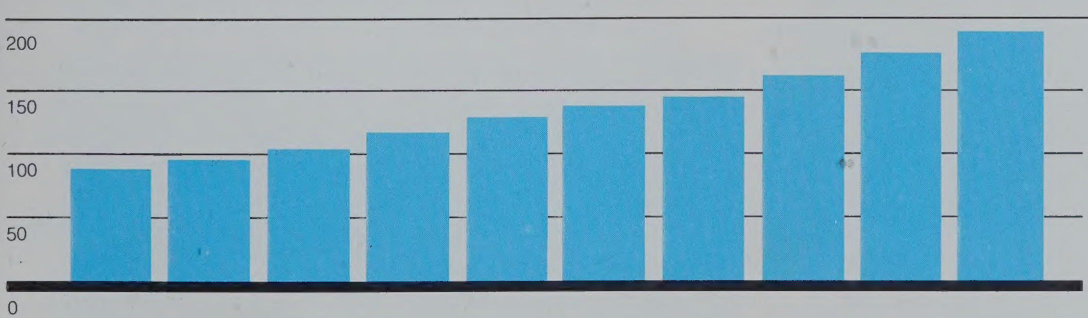
Earnings & Dividends per common & Class "A" share
in dollars

Earnings
Dividends



Retained Earnings & Income Taxes
in millions of dollars

Retained Earnings
Income Taxes



Shareholders' Equity
(Book value)
in millions of dollars

Return on Shareholders' Equity
in percent

outflow; however, the amount of paid up capital recorded on the Company's books as consideration received for shares issued and outstanding as of September 29, 1978 is increased by the transfer from surplus of an amount of $14,323,794 in the case of 4,024,968 Class "A" shares and by an amount of $10,676,206 in the case of 3,000,000 common shares. The paid up capital, in each case, is increased by $3.5587 per share.

The By-law was adopted in order to take advantage of certain provisions of the federal Income Tax Act and the Quebec Taxation Act which permit companies to distribute their 1971 capital surplus on hand (CSOH) in ways advantageous to their shareholders. This right would normally expire on December 31, 1978.

Although Steinberg Inc. does not plan any immediate distribution of surplus, the adoption of the By-law and appropriate elections made under the federal and Quebec taxation statutes, conserve the Company's right to distribute capitalized surplus to its shareholders in future years, up to a total of $25 million, under the same conditions as exist prior to December 31, 1978.

The By-law and the elections referred to have no immediate tax consequences for the Company's shareholders except that the amount of 1971 CSOH which is available for distribution by companies which themselves are shareholders of either common or Class "A" shares of Steinberg Inc. is increased by an amount of $3.5587 per share held.

Quarterly Performance

Following is a summary of the quarterly sales and earnings of the Company for the past two fiscal years.

1978

Quarter	Sales	Earnings	
	(thousands)	(thousands)	per share
1st	$ 408,005	$ 3,677	$ .52
2nd	466,012	6,901	.98
3rd	427,147	3,727	.53
4th	602,037	11,425	1.62
Total	$1,903,201	$25,730	$3.65

1977

Quarter	Sales	Earnings	
	(thousands)	(thousands)	per share
1st	$ 383,017	$ 3,429	$ .49
2nd	437,508	6,251	.89
3rd	394,954	4,106	.57
4th	538,597	8,109	1.15
Total	$1,754,076	$21,895	$3.10

The first three quarters in each year include 12 weeks while the fourth quarter comprises 16 weeks.

Retail Food Operations

Sales of our two retail food divisions increased over the previous fiscal year by more than 9% to a total of $1,620,493,000 and accounted for 85% of total sales of the Company. Gross margins were relatively stable with those of the previous year. Pre-tax earnings from this area of our operations were higher.

Average weekly sales per store approximated $150,000 and annual sales per square foot of selling area exceeded $450 for the year. Our productivity, as measured by these indices and others, continues to improve — particularly as the average selling area of our food stores, which now exceeds 17,100 square feet, is increased.

In addition to normal competition, the year was characterized by the introduction of a variety of new merchandising concepts designed to attract the customer. These new concepts included the introduction of generic or unbranded grocery items sold at lower than normal prices and the opening of small stores carrying limited lines of grocery items and offering less service in plainer surroundings. At the other end of the spectrum, an increasing number of the very large so-called "superstores" are offering a wider variety of more specialized foods as well as a large selection of non-food items.

Steinberg is in the forefront of such new developments. In the last quarter of the fiscal year, we opened the first of our food markets of the superstore category, with more than 50,000 square feet of selling area. This store in Rosemere, Quebec has a number of specialized food counters offering a wide variety of cheeses, fish and delicatessen products and also features a large non-food section. Additional stores of this type are planned for both the Quebec and Ontario markets. During the year we introduced a line of generic or unbranded grocery items which sell at substantially lower prices with only a small sacrifice in the degree of quality provided. These staple grocery items have proved to be more popular in Ontario than in Quebec; the number available is being expanded.

Following the year end the Company, through a newly formed subsidiary, opened in the Metropolitan Toronto region two small grocery outlets under the name of "Valdi Discount Foods". These stores carry a limited assortment of national and private label branded merchandise, provide a minimum of customer service but offer very substantial price savings on items which are in high demand. Refrigerated and other perishable items are not stocked. Three more such stores are scheduled to open before the end of the current calendar year.

Quebec Division

Sales of Quebec Division increased by more than 8% to exceed $1.1 billion for the year. Increases in operating expenses were held to a minimum resulting in increased pre-tax profits. The overall gross margin achieved by the division was actually reduced from that of the previous fiscal year.

A high degree of emphasis continues to be placed on courtesy and customer service as well as on programs to improve quality control and sanitation — the whole with the goal of providing the best possible product at the lowest possible prices in modern, clean facilities.

The new Rosemere "superstore" is an example of the type of innovative store layout designed to provide maximum convenience to our customers. This 60,000 square foot store provides a number of specialized departments and boutiques, offering an exceptionally wide choice of food and non-food items, coupled with a high level of customer service.

The full implementation of Quebec's language legislation, Bill 101, has necessitated major changes in our policy respecting interior and exterior signs for the food stores in the Province of Quebec. Our previous policy provided for either fully bilingual or signs alternatively in French and English within a store. Despite representations made to l'Office de la langue française and to the provincial government, outlining the need to serve our customers in the language of their choice, we have been unable to obtain relief from the stringent requirements of the law. We regard this legislation as needlessly restrictive. Virtually all store signs have now been changed to those utilizing pictograms or to unilingual French signs.

During the year the division opened two food stores, closed two older stores and effected major expansions or modernizations to eight. Total capital expenditures exceeded $18 million. At year end the division was operating 143 stores. An additional four new stores, three of which are already open, are scheduled for the current fiscal year.

Ontario Division

This division, which operates 66 food stores under the name Miracle Food Mart in central and southern Ontario, is able to report a 11% sales increase for the year. However, reduced earnings reflect the aggressive competition faced in that market. During the year the division opened three new food stores and completed renovations and modernizations to six existing stores.

Miracle Food Mart was one of the leaders in the introduction of generic unbranded grocery items. This concept has been well received in the Ontario market and the number will be substantially increased from about the thirty being carried at present.

Serious price competition was also created with the introduction by competing chains of small stores carrying a limited line of products, as well as by the opening of a number of large superstores. Ontario Division has plans to open two such large stores, each to have a sales area in excess of 40,000 square feet with large general merchandise and pharmacy sections.

The division has been devoting a great deal of time working with unions and employees on the introduction of a Quality of Work Life program which is designed to improve the work place atmosphere and to give employees a greater say in the scheduling, supervision and evaluation of their work. This program, which is in place in four food stores, is still in an experimental stage — there have been both disappointments and successes to date.

Two-year collective agreements were recently negotiated covering food store employees and the division is currently negotiating with the union representing its warehouse employees.

General Merchandise Retailing

Total sales generated by the two general merchandise areas of the organization, Miracle Mart and Cardinal Distributors, remained virtually unchanged from last year. Pre-tax earnings from the Miracle Mart Division increased. Cardinal suffered a small loss on its retailing operations.

Miracle Mart Division

Sales of Miracle Mart declined marginally during the year, but earnings before taxes showed a major improvement.

Better merchandise selection in key departments, wider ranges in prices and styles, as well as improved store layout and fixtures combined with better trained and motivated employees have contributed to the improved results. New departments have been added to the stores in recent months and should add to the improving profitability.

During the year Miracle Mart opened a new 100,000 square foot store in the Montreal suburb of Brossard, and subsequent to the year end added another in Les Promenades St. Bruno shopping centre, the largest in the Montreal region. The division's 34th store was later opened in the Quebec City region.

The division has now moved into a new distribution centre in western Montreal of more than 300,000 square feet. This warehouse, which also houses the administrative and buying

offices and quality control laboratory of Miracle Mart, has excellent access to major highways connecting to all regions served by the division. While not categorized as a fully automated warehouse, the facility is equipped with a variety of up-to-date labour saving equipment and devices.

Cardinal Distributors Limited

Sales of this subsidiary continue to show a steady improvement and in fiscal 1978 increased by 14% to surpass the $40 million level. However, certain operational difficulties and intense price competition resulted in a loss for the year.

During the year three stores were opened and one closed, with 39 units in operation at year end. Three stores have been opened to date in the current fiscal year.

In order to improve both customer service and inventory control, Cardinal is introducing a point of sale Inventory Management System which will be installed in all outlets by early spring 1979. This system has been successfully implemented in large catalogue operations in the United States.

Manufacturing Operations

Through three subsidiary companies, Steinberg Foods Limited, Cartier Sugar Ltd. and Phénix Flour Limited, we are involved in the manufacturing and processing of a variety of food and food products. Total sales of these subsidiaries equalled $90,776,000, of which $28,333,000 or 31% were to external customers and the balance were inter-company sales.

Steinberg Foods Limited

Steinberg Foods Limited, our food processing subsidiary, together with its subsidiary Multimarques Inc., was not able to achieve the same level of profits as had been earned in the previous fiscal year. The outlook for the current and future years is good.

The development and introduction of a variety of innovative products under the Multimarques label has progressed satisfactorily and will continue in the new year. "Pain Quotidien/Daily Bread" and "Bon Matin" breads, the "Maestro" family of frozen products as well as natural snack foods are examples of the emphasis being placed on nutritionally sound products that fill a prime need of a growing market segment.

During the year the main thrust was towards the development of a larger outside sales market to complement sales to the retail divisions of Steinberg Inc. The results of this concentration have been encouraging and should be more pronounced in the current fiscal year, resulting in increased sales and profits. In addition to sales to Canadian retailers, sales are now being made to markets in the northern United States. This trend is expected to accelerate.

In order to keep in step with advances in technology and to ensure efficient operations capital expenditures in excess of $1 million were made to plant and equipment. These are expected to contribute to increased productivity and improved product quality.

Le Pain Quotidien/Daily Bread

Le Pain Quotidien, a new, natural white bread which matches the nutritional value of whole wheat bread, is the latest in a family of natural breads developed by the research and development facilities of Multimarques Inc. Others include a six-grain bread, a wheat germ and honey loaf, a double bran bread and Canadian oatmeal bread. Free of preservatives, *Le Pain Quotidien* — known as *Daily Bread* in Ontario — combines the natural bulk value of whole wheat bread with the appeal of white bread.

Working closely with Macdonald College, the research group at Multimarques, over a two-year period, investigated a number of sources of natural fibre to determine the physiological effects on digestion. This research led to a major conclusion: the hulls of yellow field peas are equivalent in physiological bulk value and food balance to wheat bran, but possess certain attributes more compatible with contemporary consumption patterns. A formula or récipe for a bread with exceptional taste appeal, appropriate texture and good color was subsequently created.

This "white bread with a difference", introduced to the Quebec market in May and subsequently in Toronto, has been made available to major chain stores and independents, through the facilities of Multimarques and other bakeries manufacturing under license. To date it has achieved a good share of market and introduction to the rest of Canada and some parts of the United States is scheduled for January 1979.

Cartier Sugar Ltd.

A decline in raw sugar prices on the international markets was passed on to consumers and industrial customers of Cartier in the form of lower prices for refined sugar. Sales, expressed in dollars, declined somewhat, but production continued at an average of better than 95% of capacity. Cartier exceeded its budgeted profit objectives.

Cartier plans a major renovation and modernization program for its refinery in order to increase its productive capacity and improve the standard of quality and purity of its product.

Phénix Flour Limited

Fiscal 1978 proved to be a normal year for both sales and earnings for this subsidiary — in comparison with the results of the previous year which were affected by the six-month industry-wide strike.

During the year new storage silos at the Montreal mill were completed which facilitate the supply to maritime transportation. New equipment was added to minimize flour dust within the mill. Phénix has the most modern, automated flour mill in Canada.

In addition to its regular domestic sales, the Company participates in a federal government sponsored assistance program under which flour is exported to a number of third-world and underdeveloped countries.

Other Retailing

Intercity Food Services Inc.

Total sales of our restaurant division increased by more than 27% to $25.3 million, while profits were reduced marginally. Results for the year include those of Host House Foods Limited since its acquisition in December, 1977. The restaurant and snack bar outlets included in this acquisition, on the whole, are very similar to the existing operations of Intercity. The name of Host House has recently been changed to Multi Restaurants Inc.

In addition to the units acquired during the year a further sixteen units were opened and five closed for a total of 164 in operation at the end of the fiscal year. The Company plans to open shortly its first barbecue chicken and ribs restaurant in Montreal, under the name "La Rôtisserie du Village". An aggressive expansion policy, which includes possible acquisitions, as well as the development of new restaurant concepts, continues to be pursued. We believe that the fast food industry offers excellent opportunities for profitable growth.

Pharmaprix Limited

Total sales of the units operated by Pharmaprix subscribers increased 25% in the year — indicating the good public acceptance of these modern, large, self-service outlets.

Three additional stores were opened, bringing the total number in operation at year end to 29. Seven more are planned for the current year, of which two are already operating.

A private label line of products, bearing the name "Pharmavie", has recently been introduced. These products, with high standards of quality, dependability and value, will play an important role in promoting and maintaining customer loyalty.

During the year a centralized computer system was made available to all subscribers. This system, which permits the pharmacist-subscribers to maintain accurate records on customers' prescriptions, will help in providing dependable service to the public.

Net income of Pharmaprix Limited for the year 1978 declined. Because it is jointly owned with Koffler Stores Limited its results are accounted for on the equity method.

Employee Relations

Salaries, wages and employee benefits paid to our more than 25,000 full and part time employees exceeded $280 million — an increase of more than $19 million or some 7% over the previous year. Salaries, wages and benefits accounted for approximately 14.7% of sales.

In late 1977, while under Anti-Inflation Board controls, major collective agreements were signed with unions representing virtually all unionized employees in Quebec. These agreements had provision to reopen negotiations for wages in the current year; such discussions are presently in progress.

During the year a satisfactory two-year collective agreement was negotiated for food store employees in Ontario.

Some 80 children of Steinberg employees from Quebec and Ontario met with the Hon. Renaude Lapointe, Speaker of the Senate, during a tour of the National Capital Region on the weekend of July 1st.

Consolidated statements of earnings and retained earnings

Steinberg Inc. and Subsidiary Companies
For the year ended July 29, 1978
(expressed in thousands of dollars)

Statement of Earnings

	1978 $	1977 $
Sales and Operating Revenue	1,917,529	1,767,687
Expenses		
Cost of sales and other operating and administrative expenses	1,530,280	1,410,227
Wages and employee benefits	278,692	259,713
Directors' and officers' remuneration	1,949	1,808
Rentals and lease purchase payments	24,155	21,261
Depreciation and amortization	23,161	20,513
	1,858,237	1,713,522
Earnings from Operations	59,292	54,165
Financial (Income) and Expenses		
Interest and amortization of discount on long-term debt	18,124	15,641
Other interest	699	339
Interest earned and gain on redemption of long-term debt	(3,886)	(2,942)
Income from 50% owned and from affiliated companies	(862)	(552)
	14,075	12,486
Earnings before Income Taxes and Minority Interest	45,217	41,679
Income Taxes		
Current	16,656	16,283
Deferred	2,281	3,162
	18,937	19,445
Earnings before Minority Interest	26,280	22,234
Minority Interest	550	339
Net Earnings for the Year	25,730	21,895
Represented by:		
Retail and manufacturing companies	21,485	18,767
Real estate companies	4,245	3,128
	25,730	21,895
Net Earnings per Class "A" and Common Share (note 4 (e))	$3.65	$3.10

Statement of Retained Earnings

	1978 $	1977 $
Balance — Beginning of Year	153,729	136,699
Net earnings for the year	25,730	21,895
	179,459	158,594
Dividends—		
5¼% preferred shares Series "A"	131	138
2½% subordinated preferred shares	75	125
Class "A" and common shares	5,027	4,602
	5,233	4,865
Balance — End of Year	174,226	153,729

Assets

	Cost $	Accumulated depreciation $	1978 $	1977 $
Current Assets				
Cash			6,110	7,320
Short-term marketable securities			37,931	28,253
Accounts receivable			12,652	7,988
Inventories			156,863	146,118
Prepaid expenses			11,500	8,673
			225,056	198,352
Other Assets (note 2)			13,209	12,690
Fixed Assets — real estate operations				
Undeveloped land — at cost plus carrying charges			24,431	23,342
Land, buildings and parking areas — at cost		197,550		
Less: Accumulated depreciation		44,467	153,083	146,724
			177,514	170,066
Fixed Assets — retail and manufacturing operations				
Land and buildings	4,686	1,138	3,548	3,633
Equipment	201,161	97,703	103,458	91,488
	205,847	98,841	107,006	95,121
Leasehold improvements — at cost, less amortization			28,196	28,768
			135,202	123,889
Intangible Assets				
Unamortized discount on long-term debt			2,164	1,757
Excess of cost of shares in subsidiary companies over net book value at date of acquisition			17,310	15,409
			19,474	17,166
			570,455	522,163

Signed on Behalf of the Board
Mel Dobrin, Director
Jack Levine, Director

Consolidated balance sheet

Steinberg Inc. and Subsidiary Companies
As at July 29, 1978
(expressed in thousands of dollars)

Liabilities

	1978 $	1977 $
Current Liabilities		
Bank advances and notes payable	10,111	2,738
Accounts payable and accrued liabilities	130,572	120,620
Dividends payable	33	35
Income taxes	2,323	148
Current portion of long-term debt (note 3)	49	200
	143,088	123,741
Long-Term Debt and Other Obligations (note 3)		
Real estate operations	134,757	125,582
Retail and manufacturing operations	72,172	73,850
	206,929	199,432
Deferred Income Taxes	19,003	16,765
Minority Interest	2,950	2,524
	371,970	342,462

Shareholders' Equity

	1978 $	1977 $
Capital Stock (note 4)		
Authorized		
74,725 cumulative redeemable preferred shares of the par value of $100 each		
30,600 2 1/2% non-cumulative subordinated preferred shares redeemable at their par value of $98 each		
4,500,000 Class "A" shares without par value — non-voting		
3,500,000 common shares without par value		
Issued, outstanding and fully paid		
24,725 5 1/4% preferred shares — Series "A"	2,473	2,626
30,600 2 1/2% subordinated preferred shares	2,999	4,998
4,000,493 Class "A" shares	6,545	6,228
3,000,000 common shares	1,500	1,500
	13,517	15,352
Contributed Surplus (note 5)	10,742	10,620
Retained Earnings	174,226	153,729
	198,485	179,701
	570,455	522,163

Consolidated statement of changes in financial position

Steinberg Inc. and Subsidiary Companies
For the year ended July 29, 1978
(expressed in thousands of dollars)

	1978 $	1977 $
Source of Working Capital		
Net earnings for the year	25,730	21,895
Items not affecting working capital		
Depreciation and amortization	23,354	20,694
Deferred income taxes	2,281	3,162
Minority interest	550	339
Provided from operations	51,915	46,090
Additional debt and capital stock issued		
Income debentures		10,000
Mortgages and other obligations — net	1,737	18,789
Class "A" shares to employees	317	32
Net proceeds from issue of $10^1/_4$ - $10^1/_2$% Series 1978 first mortgage bonds	29,400	
	83,369	74,911
Use of Working Capital		
Net additions to assets		
Real estate property	11,826	12,505
Retail and manufacturing — fixed assets	30,096	34,551
Investments and other items	3,063	(3,331)
	44,985	43,725
Reduction of long-term debt	23,640	4,871
Reduction of minority interest	124	462
Redemption of Series "A" preferred shares — net	93	5
Redemption of subordinated preferred shares	1,937	1,000
Dividends	5,233	4,865
	76,012	54,928
Increase in Working Capital	7,357	19,983
Working Capital — Beginning of Year	74,611	54,628
Working Capital — End of Year	81,968	74,611

Notes to consolidated financial statements

Steinberg Inc. and Subsidiary Companies
For the year ended July 29, 1978

1. Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of all companies in which the parent company holds an interest in excess of 50%, including those of Ivanhoe Inc. and its subsidiary companies. The investments in 50% owned and in affiliated companies are accounted for on the equity basis.

Inventories

Inventories are valued at the lower of cost or net realizable value using principally the retail method for retail stores and average cost for the remaining inventories.

Depreciation and amortization

(a) Depreciation of fixed assets is computed on the straight line method at rates which are sufficient to amortize the costs over their estimated useful lives.

(b) Long-term debt discount is amortized over the terms of the issues.

(c) In 1978 the Company acquired all of the outstanding shares of Host House Foods Limited (now Multi Restaurants Inc.) for cash of $2,347,000. As a result of this transaction an amount of $1,901,000 has been added to the excess of cost of shares in subsidiary companies over net book value at date of acquisition. This amount will be charged to income on the straight-line basis over forty years.

No amortization is charged on the excess of cost of shares in subsidiary companies over net book value for previous acquisitions. Unamortized amounts are charged to income in the event of diminution in value.

Short-term marketable securities

Short-term marketable securities are carried at cost which approximates quoted value.

2. Other Assets

These comprise the following:

	1978	1977
	(thousands of dollars)	
50% owned companies		
Shares — at equity	**1,693**	1,492
Advances	**1,152**	629
	2,845	2,121
Affiliated companies		
Shares — at equity	**2,559**	2,016
Advances	**426**	427
	2,985	2,443
Advances and other recoverable amounts		
Balances of sales of land	**1,839**	2,981
Real estate transactions	**3,353**	3,208
	5,192	6,189
Funds on deposit and other items	**2,187**	1,937
	13,209	12,690

3. Long-Term Debt and Other Obligations

	1978	1977
	(thousands of dollars)	
Real estate operations		
(Refer to page 24 and note 4 to the consolidated financial statements of Ivanhoe Inc.)	**136,601**	125,582
Elimination of 7% demand loan due to Steinberg Inc.	**1,844**	
	134,757	125,582
Retail and manufacturing operations		
Steinberg Inc. sinking fund debentures		
$5\frac{3}{4}$% Series "A", due 1984	**7,806**	8,583
$6\frac{5}{8}$% Series "B", due 1986	**8,766**	9,588
$8\frac{5}{8}$% Series "C", due 1992	**19,049**	19,279
$10\frac{1}{2}$% Series "D", due 1994 (or 1984 at option of holder)	**25,000**	25,000
Sinking fund requirements for the above debentures are $1,250,000 annually for the years 1979 and 1980 and $1,700,000 for 1981 to 1983. The excess of bonds cancelled or purchased for redemption to date over the cumulative sinking fund requirements at July 29, 1978 amounting to $1,629,000 may be applied against these requirements.		
$9\frac{1}{4}$% demand bank loan	**1,600**	1,600
Secured income debentures of subsidiaries at interest of $1\frac{1}{2}$%-2% over approximately 50% of the bank prime rate due in 1979 with an option to renew for one additional year	**10,000**	10,000
	72,221	74,050
Current portion due within one year	**49**	200
	72,172	73,850

4. Capital Stock

(a) Supplementary letters patent were granted July 17, 1978 reducing the authorized capital of the company by cancelling 1,530 Series "A" preferred shares and 20,400 subordinated preferred shares.

(b) During the year 1,530 Series "A" preferred shares were redeemed.

(c) The subordinated preferred shares are subject to the restriction that the company may redeem such shares to a maximum of $1,000,000 and may purchase by tender additional shares to a maximum of $1,000,000 in each year. During the year, the company redeemed 10,200 shares at par for a consideration of $999,600 and purchased by tender an additional 10,200 shares at a price of $91.9375 per share for a total consideration of $937,763. Subsequent to July 29, 1978, the company redeemed a further 10,200 shares at par for a consideration of $999,600.

(d) Subsequent to July 29, 1978 the company capitalized $25,000,000 of its existing surplus by transfer to its authorized and issued capital stock of $14,323,794 in the case of the Class "A" shares and $10,676,206 in the case of the common shares. This was confirmed by Supplementary Letters Patent dated October 17, 1978.

(e) As at July 29, 1978 the company had reserved 226,907 Class "A" shares as follows:

	Number of shares	Price per share
Options to senior employees		
Exercisable to November 30, 1978	30,850	$12.00
	1,800	$18.00
	5,000	$19.00
	61,080	$20.00
	98,730*	
Exercisable from December 1, 1978 to November 30, 1981	68,500	$16.00
Reserved for future allocation of options at a price to be determined by the Board of Directors but not less than 90% of the market value at the time of allocation	59,677	
	226,907	

*The exercise of all the outstanding options would dilute earnings per Class "A" and common share by 3 cents (1977 — 4 cents).

(f) During the year 26,450 (1977 — 2,700) Class "A" shares were issued to employees for cash of $317,400 (1977 — $32,400).

5. Contributed Surplus

The contributed surplus as at July 29, 1978 consists of a premium on issue and conversion of shares and gains on redemption of Series "A" preferred shares amounting to $10,620,000 with respect to prior years and gains on redemption of Series "A" preferred shares and purchase by tender of subordinated preferred shares amounting to $59,695 and $61,837 respectively in 1978.

6. Retirement Plans

There are obligations for past service pension benefits amounting to $1,871,000 according to actuarial estimates. These obligations will be satisfied by annual payments of $172,000 to 1990 and $45,900 in 1991 and 1992. During the year ended July 29, 1978, $495,000 in respect of past service pension benefits was charged to operations.

7. Long-Term Leases

The aggregate minimum rentals, exclusive of additional amounts based on percentages of sales, taxes, insurance and other occupancy charges under long-term leases in effect at July 29, 1978 for each of the periods shown are as follows:

	Payable to Ivanhoe Inc. and subsidiaries	Payable to others
	(thousands of dollars)	
Within five years	44,064	104,288
Within the next five years	38,088	94,339
Within the next five years	30,417	79,352
Within the next five years	10,536	50,931
Within the remainder of the term	8,696	47,367
	131,801	376,277

8. Contingent Liabilities

Guarantees

(a) Ivanhoe Inc. has guaranteed bank loans, amounting to $5,607,750 of companies in which it has ownership interests.

(b) Steinberg Inc. has guaranteed a bank loan on behalf of Pharmaprix Limited in the amount of $1,000,000.

(c) Steinberg Inc. has guaranteed jointly and severally with Koffler Stores Limited and Pharmaprix Limited leases of pharmacy proprietors affiliated with Pharmaprix Limited in the amount of $9,414,673 payable mostly over a twenty year period.

9. Classes of Business

Classes of business that differ substantially from each other and which respectively contribute 10% or more of the total gross revenue are:

	1978	1977
Food retailing (Quebec and Ontario Divisions)	**85%**	84%
General retailing (Miracle Mart Division)	**10%**	11%

10. Anti-Inflation Legislation

The company is in the process of filing its final compliance report with the Anti-Inflation Board, indicating no excess revenue.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Steinberg Inc. as at July 29, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at July 29, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Montreal, Quebec
October 18, 1978

Chartered Accountants

	1978 $	1977 $	1976* $
Sales — retail and manufacturing	**1,903,201**	1,754,076	1,594,285
Salaries, wages and employee benefits	**280,641**	261,521	222,878
Depreciation and amortization	**23,161**	20,513	18,729
Income taxes			
current	**16,656**	16,283	16,442
deferred	**2,281**	3,162	2,327
Net earnings	**25,730**	21,895	21,266
per common and Class "A" share	**$3.65**	$3.10	$3.01
per dollar of sales	**1.35¢**	1.25¢	1.33¢
Inventories	**156,863**	146,118	122,432
Working capital	**81,968**	74,611	54,628
Total assets	**570,455**	522,163	471,917
Shareholders' equity (book value)	**198,485**	179,701	163,644
per common and Class "A" share	**$27.57**	$24.67	$22.24
return on equity	**12.96%**	12.18%	13.00%
Dividends to shareholders	**5,233**	4,865	4,468
Capital expenditures	**41,922**	47,056	46,614
Food stores	**209**	206	197
sales area (thousands of feet)	**3,593**	3,488	3,273
Department stores	**32**	31	28
sales area (thousands of feet)	**2,178**	2,112	2,046

*53 weeks

Ten year statistical review

(thousands of dollars except where noted)

1975 $	1974 $	1973 $	1972 $	1971* $	1970 $	1969 $
1,420,966	1,185,581	1,002,304	871,828	786,407	679,650	553,335
190,449	158,399	134,465	114,650	102,575	88,206	77,314
15,803	14,473	12,903	11,511	10,674	10,168	9,389
16,039	13,495	12,759	10,067	9,111	8,393	3,952
(1,016)	2,339	1,377	552	(111)	1,054	1,685
11,901	16,229	16,729	14,972	9,459	9,317	5,909
$1.66	$2.29	$2.37	$2.16	$1.37	$1.34	$0.84
.84¢	1.37¢	1.67¢	1.72¢	1.20¢	1.37¢	1.07¢
112,165	113,283	82,391	68,440	59,011	55,723	47,412
35,438	23,440	30,725	26,203	8,979	9,151	10,846
418,115	389,003	338,292	287,848	266,685	252,950	244,808
147,730	141,192	130,331	117,411	104,488	98,083	91,410
$19.83	$18.77	$17.10	$15.20	$13.41	$12.36	$11.37
8.06%	11.49%	12.84%	12.75%	9.05%	9.50%	6.46%
4,489	4,509	3,481	2,620	2,608	2,666	2,671
36,590	34,309	36,329	22,456	18,428	11,631	16,860
196	191	187	185	179	176	178
3,185	3,019	2,815	2,692	2,544	2,455	2,467
28	32	31	28	26	23	22
2,046	2,294	2,173	2,001	2,138	1,980	1,904

Ivanhoe and Subsidiaries

Consolidated revenues and net earnings of Ivanhoe Inc. and its subsidiary companies increased substantially during the fiscal year. Rental income increased to \$27 million, or 15% over \$23.5 million reported for the previous fiscal year. Gains on the disposal of vacant land decreased from \$1.1 million to \$254,000. Earnings before taxes showed an increase from \$6.3 million to \$7.3 million, while net earnings for the year increased more than 35% to \$4.25 million from \$3.13 million.

Cash flow from operations equalled \$9.5 million, an increase of approximately \$1.5 million over the figure reported for the previous year. Fixed assets are carried on the books of the Company at \$181.4 million, an increase of \$7.7 million from \$173.8 million in 1977. Long term debt increased by \$11 million to \$136 million. Total assets exceeded \$198 million at year end.

During the year Ivanhoe issued a series of $10^1/_4$-$10^1/_2$% First Mortgage Sinking Fund Bonds in the amount of \$30 million. This issue was well received by the financial community. With the issue of these Bonds, fully independent of any guarantees from its parent company, Ivanhoe has become essentially a self-financing organization, and has consolidated its position amongst the ranks of the major Canadian real estate development and operating companies.

The reduction of new shopping centre construction in its usual geographic areas of activity has set into motion two major responses on the part of the Company. Firstly, it has accorded the opportunity to concentrate on activities related to the day-to-day operations of existing shopping centres. Stress is being placed on renovations and modernizations of properties as well as the improvement of tenant mix. An example is the expansion of Place Bourassa, a successful community shopping centre in the north of Montreal. Major renovations to St. Martin and Côte St. Luc Shopping Centres have been completed. Substantial changes in the tenant mix have taken place and are planned for Place Ste. Foy. Emphasis is being placed on the formulation of appropriate strategies to maximize the potential of each centre managed by the Company.

At the same time, efforts have commenced to carry Ivanhoe's program of expansion beyond its traditional markets and beyond any connection with Steinberg retail facilities. In this regard, the Company has been examining the acquisition of property outside Quebec and Ontario and expects to announce results relating to this program in the current year.

Consolidated statements of earnings and retained earnings

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 29, 1978
(expressed in thousands of dollars)

Statement of Earnings

	1978 $	1977 $
Revenue		
Rentals — Steinberg Inc. and subsidiaries	**12,898**	11,044
— Other	**14,074**	12,423
Gain on sale of land	**254**	1,188
	27,226	24,655
Expenses		
Operating and administrative	**2,063**	2,692
Wages and employee benefits	**2,905**	2,435
Depreciation	**4,379**	3,974
	9,347	9,101
Earnings from Operations	**17,879**	15,554
Financial (Income) and Other Expenses		
Interest and amortization of discount on long-term debt		
Steinberg Inc.	**195**	942
Other	**11,966**	9,676
Other interest	**21**	36
Interest earned and gain on redemption of long-term debt	**(732)**	(935)
Income from 50% owned and affiliated companies	**(825)**	(464)
	10,625	9,255
Earnings before Income Taxes and Minority Interest	**7,254**	6,299
Income Taxes		
Current	**2,070**	2,057
Deferred	**802**	880
	2,872	2,937
Earnings before Minority Interest	**4,382**	3,362
Minority Interest	**137**	234
Net Earnings for the Year	**4,245**	3,128

Statement of Retained Earnings

	1978 $	1977 $
Balance — Beginning of Year	**19,493**	17,115
Net earnings for the year	**4,245**	3,128
	23,738	20,243
Dividends on preferred shares	**766**	750
Balance — End of Year	**22,972**	19,493

Consolidated balance sheet

Ivanhoe Inc. and Subsidiary Companies
As at July 29, 1978
(expressed in thousands of dollars)

	1978 $	1977 $
Assets		
Property Interests		
Income producing properties	198,400	187,446
Accumulated depreciation	44,029	39,650
	154,371	147,796
Land held for future development	27,059	25,971
	181,430	173,767
Other Assets		
Accounts receivable (note 2)	7,988	8,346
Prepaid expenses	3,534	2,345
Investments (note 3)	3,690	2,985
Unamortized discount on long-term debt	1,367	877
	198,009	188,320
Liabilities		
Long-Term Debt and Other Obligations (note 4)	136,601	125,582
Other Liabilities		
Bank advances	299	1,528
Accounts payable and accrued liabilities (note 5)	4,432	8,453
	4,731	9,981
Deferred Income Taxes	10,184	9,382
Minority Interest (including $581,200 of preferred shares of a subsidiary held by Steinberg Inc.)	1,693	8,462
	153,209	153,407
Shareholders' Equity		
Capital Stock (note 6)	21,828	15,420
Retained Earnings	22,972	19,493
	44,800	34,913
	198,009	188,320

Signed on Behalf of the Board
H. Arnold Steinberg, Director
Mel Dobrin, Director

Consolidated statement of cash flow and changes in financial position

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 29, 1978
(thousands of dollars)

	1978 $	1977 $
Net Earnings for the Year	**4,245**	3,128
Items not requiring cash		
Depreciation	**4,379**	3,974
Deferred income taxes	**802**	880
Other	**110**	99
Cash Flow from Operations	**9,536**	8,081
Financing		
Additional long-term debt	**31,737**	19,993
Repayment of long-term debt	**(22,562)**	(5,064)
Additions to (repayments of) advances from Steinberg Inc.	**1,844**	(16,420)
Issuance of capital stock	**6,408**	320
Issuance of shares of a subsidiary to Steinberg Inc.		582
Redemption of shares of a subsidiary held by Steinberg Inc.	**(6,905)**	
	10,522	(589)
Funds obtained from (used for) other assets and liabilities	**(7,250)**	9,790
Payment of Dividends on Preferred Shares	**(766)**	(750)
Funds Available for Investment	**12,042**	16,532
Invested in Property Interests — Net	**12,042**	16,532

Notes to consolidated financial statements

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 29, 1978

1. Accounting Policies

(a) *Principles of consolidation —*
The consolidated financial statements include the accounts of all companies in which Ivanhoe Inc. holds an interest in excess of 50%. The investments in 50% owned and affiliated companies are accounted for on the equity basis.

(b) *Property Interests —*
Depreciation is recorded on income producing properties on the straight line method at the following rates which are sufficient to amortize the cost over their estimated useful lives:

Buildings	40 years
Parking Areas	25 years
Equipment	10 years

Income producing properties are carried at cost (including development expenses). Land held for future development is carried at cost plus direct carrying charges such as interest and realty taxes on land up to the appraised value of the land and on construction in progress until the official opening date of the project or a satisfactory level of occupancy is achieved. Capitalization in respect of all projects is subject to a reasonable maximum period of time.

2. Accounts Receivable

	1978	1977
	(thousands of dollars)	
Due from tenants	**1,726**	1,637
Amounts recoverable from land transactions, funds on deposit, and other items	**5,802**	6,709
Income taxes recoverable	**460**	
	7,988	8,346

3. Investments

	1978	1977
	(thousands of dollars)	
50% owned companies		
Shares — at equity	**290**	127
Advances	**415**	415
	705	542
Affiliated companies		
Shares — at equity	**2,559**	2,016
Advances	**426**	427
	2,985	2,443
	3,690	2,985

4. Long-term Debt and Other Obligations

	Principal outstanding **1978**	1977
	(thousands of dollars)	
First mortgage sinking fund bonds —		
Ivanhoe Inc.		
$7^1/_2$% Series A, due 1991	**3,850**	4,355
7 % Series B, due 1991 repayable in U.S. currency $1,746,000 (1977 — $1,832,000)	**1,913**	2,009
$10^1/_4$-$10^1/_2$% Series 1978 due 1998 (or 1988 at option of holder)	**30,000**	
Steinberg's Properties Limited		
$4^1/_2$% Series A, due 1980	**444**	561
6 % Series "B", "C" and "D" due 1982-84	**2,954**	3,496
Steinberg's Shopping Centres Limited		
7 % Series A, due 1985	**3,339**	3,765
$8^1/_2$% Series B, due 1994	**3,761**	3,905
Steinberg Realty Limited		
$8^1/_2$% Series A, due 1991	**13,752**	14,224
$8^7/_8$% Series B, due 1993	**20,989**	21,347
	81,002	53,662

Sinking fund requirements for the above bonds for the five ensuing years are as follows:
1979 — $2,366,000; 1980 — $2,427,000; 1981 — $2,568,000; 1982 — $2,436,000;
1983 — $2,611,000
The excess of bonds redeemed and cancelled to date over the cumulative sinking fund requirements at July 29, 1978, amounting to $3,118,000 may be applied against these requirements.

Note 4 — (continued)

	Principal outstanding 1978	1977
	(thousands of dollars)	
Mortgage loans and balances payable on land purchases —		
7%-10% balances payable on land purchases	**1,639**	2,123
$5\frac{1}{2}$%-$7\frac{1}{2}$% mortgage loans, repayable in varying monthly instalments to 1985	**2,823**	6,622
$10\frac{1}{2}$% mortgage loan repayable in monthly instalments to 1996	**866**	883
$10\frac{3}{8}$% mortgage loan repayable in varying monthly instalments to 1993	**500**	
$11\frac{1}{2}$% mortgage loans repayable in varying monthly instalments to 1992	**2,092**	2,121
$11\frac{3}{4}$% mortgage loans repayable in varying monthly instalments to 1995	**8,143**	8,214
	16,063	19,963
Other obligations —		
Non interest bearing advance	**34**	35
6% notes due on demand	**780**	780
Unsecured term loan due May 19, 1982 with interest at $\frac{1}{2}$ of 1% to 1% above prime	**4,200**	4,200
7% demand note due to Steinberg Inc.	**1,844**	
Secured term loan due July 31, 1980 with interest at $1\frac{1}{4}$% above prime		15,500
Secured term loan due June 15, 1982 with interest at $1\frac{1}{4}$% above prime	**15,000**	15,000
Secured term loan due on September 1, 1980 with interest at $1\frac{1}{4}$% above prime	**17,678**	16,442
	39,536	51,957
	136,601	125,582

5. Accounts Payable and Accrued Liabilities

	1978	1977
	(thousands of dollars)	
Steinberg Inc. and subsidiaries		4,396
Other	**4,432**	3,683
Income taxes		374
	4,432	8,453

6. Capital Stock

	1978	1977
	(thousands of dollars)	
Authorized		
155,000 5% non-cumulative preferred shares redeemable at their par value of $100 each		
70,000 8% cumulative preferred shares redeemable at their par value of $100 each		
200,000 Class "A" non-voting shares of the par value of $1 each		
50,000 common shares of the par value of $1 each		
Issued and fully paid		
153,200 5% preferred shares	**15,320**	15,320
64,088 8% preferred shares	**6,408**	
90,000 Class "A" shares	**90**	90
10,000 common shares	**10**	10
	21,828	15,420

During the year the company increased its authorized capital by 70,000, 8% cumulative preferred shares redeemable at their par value of $100 each, of which 64,088 were issued for cash.

7. Contingent Liabilities

Guarantees

Ivanhoe Inc. has guaranteed bank loans amounting to $5,607,750 of companies in which it has ownership interests.

8. Comparative Figures

Certain comparative figures for 1977 have been restated to conform with the current year's presentation.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Ivanhoe Inc. as at July 29, 1978 and the consolidated statements of earnings, retained earnings and cash flow and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at July 29, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
October 18, 1978

Coopers & Lybrand
Chartered Accountants

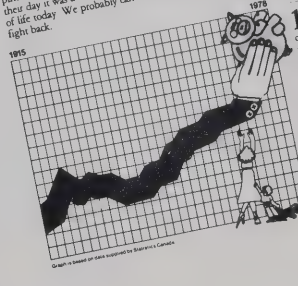
Inflation!

Steinberg offers you some valuable advice on how to fight back.

Inflation. It's a fact of life.

Inflation. The high cost of living. Both expressions are not new. In fact they've been around for a long time. Ever since man began trading, inflation has plagued the consumer. We all remember our grandparents reminiscing about what a nickel would buy in their day. Nowadays we find ourselves lamenting what a $1.00 used to buy not so long ago. Well that's inflation, and like it or not, it's here to stay.

Today we are experiencing double digit food inflation: Increases of 10% or more per year. That's why we feel the pinch in our budgets much more than our grandparents. In their day it was a mere 1 or 2%. Inflation is definitely a part of life today. We probably can't beat it, but we can certainly fight back.



How Steinberg fights food inflation.

Steinberg has always looked for ways to cut costs and fight rising prices. That's why Steinberg opened Montreal's first self-serve grocery store back in 1937. By reducing operating costs, Steinberg was able to sell food at a lower price. In 1969 Steinberg was the first chain to introduce discount prices in Canada. During the heaviest inflation period of 1975, Steinberg fought back by freezing food prices.

At Steinberg, fighting inflation is an ongoing process. Every day, distribution, energy and overhead operations are being reviewed and improved so that Steinberg can keep food prices down to a level we can all live with.

THE STEINBERG 5 POINT PROGRAMME HELPS YOU FIGHT BACK.

1. Everyday Low Prices: Retailers can sell merchandise in one of two ways. They can use loss leaders to bring customers into the store, and raise the prices on all (or most) of the balance of their merchandise to pay for these loss leaders. (The more customers stock up on these specials the higher the prices must be on the balance of the merchandise)

We, at Steinberg, do not believe in selling below cost, so all our prices are at Everyday Low Prices.

One way you can really save money is to buy specials at our competitors, and shop for the rest of your order at Steinberg.

2. Advertised Features: These are products which will give you the best possible value on choice cuts of meat, fish and poultry. Look for them in our weekly advertising.

3. House Brands: As a rule, you get the best of both worlds with Steinberg Ice Castle and Orchard King brands: National brand quality or better at a generally lower price. And all Steinberg house brands have been tested and certified for top quality and value.

4. No Name Products: These products are of standard quality but can help you save substantially on staples such as flour, coffee, detergent and tinned goods.

5. Bonus Buys: Steinberg's buyers are always looking for extraordinary buys from manufacturers. When they find them, the savings they get are passed right onto you. Bonus Buys are easy to spot throughout the store because of their bright green tags. Look for Bonus Buys in our weekly advertising. They really can help you cut your food bills dramatically.

Finally, some valuable hints.

There are some definite things you can do to fight food inflation. For example, make a shopping list and stick to it. There is less temptation to buy when you're looking for specific items. Try not to shop when you're hungry and you'll avoid picking up things which you don't need. Also, plan your menus ahead of time. That way you can take advantage of items at reduced prices.

One more suggestion. Find a grocery store you're happy with and stick with it. With the high cost of gas today, you'll probably save a lot more in the long run.

Remember, when you shop, it's the total that counts. To give you an idea of the kind of low, low prices you'll find at Steinberg, check the chart on this page. Steinberg's 5 Point Programme can help you cut your food bills substantially. And that's one of the best ways we know of to fight food inflation.

Yes, Steinberg is on your side.

ITEM	PRICE	TYPE OF PURCHASE
LEAN GROUND BEEF	$1.68 PER POUND	ADVERTISED FEATURE
SLICED BEEF LIVER SKINNED AND DEVEINED PREVIOUSLY FROZEN	58¢ PER POUND	ADVERTISED FEATURE
HYGRADE BOLOGNA BY THE PIECE REGULAR OR WAX	98¢ PER POUND	ADVERTISED FEATURE
FROZEN TURBOT STEAK	$1.38 PER POUND	ADVERTISED FEATURE
STEINBERG FROZEN TOURTIERE 16 OZ	$1.29	ADVERTISED FEATURE
STEINBERG KETCHUP 32 FL. OZ BTL	89¢	BONUS BUY
MAXWELL HOUSE ALL PURPOSE COFFEE 1 LB BAG	$2.89	BONUS BUY
FAB POWDER DETERGENT 5 LITRE BOX	$2.49	BONUS BUY
TANG ORANGE FLAVOURED CRYSTALS 3.5 OZ ENV. PKG. OF 4	99¢	BONUS BUY
ROBIN HOOD FLOUR 3.5 KILO BAG	$1.58	BONUS BUY
ORCHARD KING ORANGE JUICE	84¢	HOUSE BRANDS
ORCHARD KING WHOLE TOMATOES CHOICE 28 FL. OZ TIN	52¢	HOUSE BRANDS
STEINBERG LIQUID BLEACH 128 FL. OZ JUG	95¢	HOUSE BRANDS
ORCHARD KING VITAMINIZED APPLE JUICE 48 FL. OZ TIN	64¢	HOUSE BRANDS
STEINBERG INSTANT COFFEE 10 OZ JAR	$5.42	HOUSE BRANDS
PREPARED MUSTARD 24 OZ JAR	48¢	NO NAME PRODUCTS
WHITE VINEGAR 160 FL. OZ JUG	$1.19	NO NAME PRODUCTS
PASTA 2 LB BAG	58¢	NO NAME PRODUCTS
BATHROOM TISSUE 10 ROLLS	$1.64	NO NAME PRODUCTS
LIQUID BLEACH 128 FL. OZ BTL	66¢	NO NAME PRODUCTS

ALL ADVERTISED PRICES IN THIS CHART, ARE VALID FROM WEDNESDAY, SEPTEMBER 6TH, TO SEPTEMBER 12TH.

Steinberg Brands.

You know the savings story. Here's the quality story.

Steinberg Brands are as good or better than leading National Brands.

If you compare any Steinberg Brand with the leading National Brand, you'll find it nearly impossible to tell them apart. Same great taste in canned goods. Same lean goodness in packaged meats. Same powerful ingredients in cleaning products.

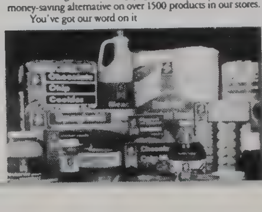
In fact, the only way most people can tell is by looking at the price. Steinberg Brands generally cost less.

For good reason

Steinberg has been able to trim the price by eliminating many of the marketing costs necessary to maintaining a National Brand. Like large sales forces. And costly advertising budgets. And well directed (but expensive) research and development

Steinberg Brands simply promise you a top-quality, money-saving alternative on over 1500 products in our stores.

You've got our word on it



We guarantee it.

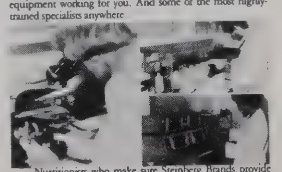
When it comes to guaranteeing the quality of our products, Steinberg is second to no one

We begin with the finest ingredients possible.

(More often than not, they're from the very same sources as the higher priced brands).

But that's just a beginning.

Back in our labs, Steinberg has over $500,000 of testing equipment working for you. And some of the most highly-trained specialists anywhere



Nutritionists who make sure Steinberg Brands provide you with maximum quality and food value

Bacteriologists who continually check and recheck our brands

Chemists who measure the efficacy of our products, set specifications and standards

And inspectors who code. Blind-test. And lots more

There's even a Steinberg 'satisfaction guarantee' that we put right on the package

After all, if we're going to talk about the quality of our

Sometimes Steinberg Brands are better than National Brands.

The whole idea of Steinberg Brands is to give you National Brand quality for less. But sometimes, National Brand quality is less than we'd like to put our name on.

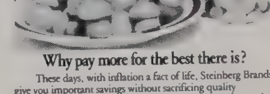
For instance, up until Steinberg mushrooms came along, you could only buy a very average quality

Now, you can get plumper, juicier mushrooms from Europe. In a Steinberg tin.

The same is true with cocktail carrots. And mandarin oranges. We were dissatisfied with the quality available So we improved on it

So, if from time to time, you find a Steinberg product that costs a little more than the National Brand, check the label Read the contents. And more important, taste the difference

There's a value story there, you ought not to miss.



Why pay more for the best there is?

These days, with inflation a fact of life, Steinberg Brands give you important savings without sacrificing quality

So look for the Steinberg 'S' on hundreds of everyday shopping items. On Orchard King tinned vegetables, fruits and juices. And on Ice Castle ice cream and soft drinks

If you can't taste the difference, why pay the difference!

PRODUCT	NATIONAL BRAND	STEINBERG BRAND	SAVINGS
PRODUCT	BRAND GRADE SIZE PRICE	BRAND GRADE SIZE PRICE	
CHEESE SLICES	KRAFT Thin Single Cheese Slices 8 oz pkg. 89c	STEINBERG Thin Single Cheese Slices 8 oz pkg. 81c	8c
MARGARINE	FLEISCHMANN Corn Oil Margarine 1 lb pkg. $1.19	STEINBERG Corn Oil Margarine 1 lb pkg. 99c	20c
STRAWBERRY JAM	KRAFT Pure Strawberry Jam 24 fl. oz jar $1.76	STEINBERG Pure Strawberry Jam 24 fl. oz jar $1.55	21c
KETCHUP	HEINZ Ketchup 20 fl. oz btl. 85c	STEINBERG Ketchup 20 fl. oz btl. 76c	9c
MUSTARD	FRENCH Mustard 16 oz jar 59c	STEINBERG Prepared Mustard 16 oz jar 49c	10c
SALAD DRESSING	MIRACLE WHIP Salad Dressing 32 fl. oz jar $1.46	STEINBERG Salad Dressing 32 fl. oz jar $1.29	17c
WHOLE KERNEL CORN	NIBLETS Whole Kernel Corn Canada Fancy 12 fl. oz tin 49c	ORCHARD KING Whole Kernel Corn Canada Fancy 12 fl. oz tin 38c	11c
ASSORTED PEAS	AYLMER Assorted Peas Canada Choice 14 fl. oz tin 37c	ORCHARD KING Assorted Peas Canada Choice 14 fl. oz tin 27c	10c
WHOLE TOMATOES	AYLMER Whole Tomatoes Choice 28 fl. oz tin 68c	ORCHARD KING Whole Tomatoes Choice 28 fl. oz tin 52c	16c
PEACH SLICES	DEL MONTE Cling Peach Slices Fancy 28 fl. oz tin 89c	STEINBERG Cling Peach Slices Fancy 28 fl. oz tin 69c	20c
TOMATO JUICE	HEINZ Tomato Juice Canada Fancy 48 fl. oz tin 76c	[illegible] Tomato Juice Canada Fancy 48 fl. oz tin 59c	17c
APPLE JUICE	ALLEN Apple Juice Canada Choice 48 fl. oz tin 81c	ORCHARD KING Apple Juice Canada Choice 48 fl. oz tin 64c	17c
FRUIT FLAVOUR DRINKS	ALLEN Ass. Fruit Flavour Drinks 48 fl. oz tin 57c	STEINBERG Ass. Fruit Flavour Drinks 48 fl. oz tin 49c	8c
FRENCH FRIES	[illegible] Regular Cut Froz. French Fries 2 lb bag 85c	STEINBERG Reg Cut Froz. French Fries 2 lb bag 69c	16c
FROZEN ORANGE JUICE	MINUTE MAID Froz. Unsweet. Orange Juice 12 fl. oz tin $1.14	[illegible] KING Froz. Unsweet. Orange Juice 12 fl. oz tin 84c	30c
INSTANT COFFEE	NESCAFE Instant Coffee 10 oz jar $5.94	STEINBERG Instant Coffee 10 oz jar $5.42	52c
ORANGE PEKOE TEA	SALADA Orange Pekoe Tea Bags pkg. of 60 $1.84	STEINBERG Orange Pekoe Tea Bags pkg. of 60 $1.63	21c
MACARONI & CHEESE	CATELLI Macaroni & Cheese Dinner 7¼ oz pkg. 31c	STEINBERG Macaroni & Cheese Dinner 7¼ oz pkg. 26c	5c
FLOUR	ROBIN HOOD Flour 3.5 kilo bag $1.65	STEINBERG Flour 3.5 kilo bag $1.37	28c
CORN OIL	MAZOLA Corn Oil 32 fl. oz btl. $1.94	STEINBERG Corn Oil 32 fl. oz btl. $1.83	11c
LIQUID HONEY	[illegible] Liquid Honey 16 oz jar $1.09	STEINBERG Liquid Honey 16 oz jar $1.05	4c
JELLY POWDER	JELLO	STEINBERG	5c

Keeping Consumers Informed

From its very beginning, Steinberg's has enjoyed a special relationship with its customers. The constant effort to provide better value and service has been reciprocated by steady patronage based on confidence and trust.

As stores have grown larger, the variety of goods offered for sale has increased rapidly. At the same time numerous external factors affecting supply, quality and price have tended to make rational shopping decisions more difficult for consumers.

Over the years Steinberg's has organized hundreds of consumer meetings, some demonstrating the economical selection and proper use of food products such as meat and produce, others dealing with quality control, nutrition, sanitation and environmental concerns.

In addition, the Company has participated in major exhibitions such as The Toronto Home Spring Show, Le Salon de la Femme and the International Salon of Food and Agriculture, with live demonstrations on various matters of interest to consumers.

During the past year, the Company stepped up its consumer information program with a series of two-page newspaper advertisements aimed at helping customers understand, and do something about rising food prices.

One ad explained the reasons for the spectacular rise in beef prices and suggested how consumers could meet their budgets by buying substitutes such as fish, pork, etc. Another told how equal quality at lower prices is available through purchase of Steinberg brand products. A third, headed "Inflation", offered a five point program to help consumers combat the erosion of their purchasing power.

These are part of a continuing program to keep consumers informed.

Beef Prices!

Steinberg thinks it's time someone talked to you about them.

Why has t-bone almost doubled in price since January?

As you are no doubt aware, beef prices have been consistently low for the past several years. And we've all been benefitting.

All of us except the farmer, that is.

On the one hand, his feed grain and labour costs have risen tremendously. On the other, the price he was getting for his beef was shrinking.

So, the farmer, just to try and pay his bills, was forced into bringing most of his herd to the slaughterhouse. This created a surplus on the market, whetted our appetite for beef even more, and drove prices still lower.

Today, this surplus has become a shortage because farmers just haven't beef to sell.

But we've still got our appetite.

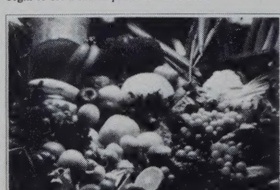
And when you've got a lot of people looking for a little beef, the price of that beef rises. As do many other meats.

Is it the same story with the high cost of fruit and vegetables?

Thank goodness, no. While beef prices are expected to remain high for some time, the fruit and vegetable situation is probably short term.

Early frosts and natural disasters in key growing areas have damaged, even wiped-out, whole crops. Creating shortages and high prices.

Hopefully, with good harvests this year, we should begin to see a fall in prices towards Fall.



What is Steinberg doing to help?

At first thought, you might say "Steinberg, why not give us weekly beef sales?" We could.

And some supermarkets probably will.

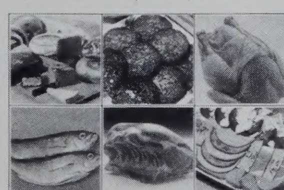
But they'd likely be selling you beef below their cost and, as good business dictates, would have to pick up the difference on other articles.

More important, however, all that this would accomplish is to create a greater demand for what little beef is available, raising prices even higher.

Steinberg thinks there are better ways.

Specifically: we've asked our buyers to do everything they can to negotiate the absolute lowest prices for the kind of quality Steinberg beef you're accustomed to. Our buyers understand. They love their beef as much as you do.

We're also going to be cutting prices immediately on some great alternatives. Like lean hamburger. Pork. Fish. Delicatessen meats. And more. They're nutritious. Delicious. And we think your family will love them.



Finally, we'll be instigating a 'Best Buy' program. These products will either be at a reduced price like the meats mentioned above. Or extremely good values. Like turkey. And canned salmon. And seasonal products as they're available. They've been chosen for quality. Taste. And of course, price. And they'll be marked with our 'Best Buy' sticker.

So watch for them in our regular Wednesday newspaper ads. And look for them right on the package in our Steinberg stores.

This is our way of telling you, "Look! The price of beef is beyond our control, but rest assured, Steinberg is on your side."

Steinberg is on your side with these immediate price cuts.

PRICE CUT ITEM	REG. PRICE	NEW PRICE
LEAN GROUND BEEF per lb	$1.98	$1.66
FROZEN RAINBOW TROUT 10 oz	$1.59	$1.18
I.Q.F. FROZEN TURBOT FILLET per lb	$1.79	$1.18
PREVIOUSLY FROZEN PORK LIVER per lb	49¢	28¢
FROZEN PORK SPARE RIBS per lb	$1.89	$1.48
STEINBERG FRESH CHICKEN PIE 12 oz	75¢	58¢

Steinberg is on your side with these delicious "Best Buys".

BEST BUY ITEM	BEST BUY PRICE
REGULAR GROUND BEEF per lb	$1.08
NEW ZEALAND FROZEN LEG OF LAMB per lb	$1.75
NEW ZEALAND FROZEN LAMB CHOPS OR ROAST per lb	$1.15
BONELESS PORK BUTTS per lb	$1.49
FROZEN PORK HOCKS per lb	49¢
CANADA GRADE "A" CRY-O-VAC FROZEN FRYERS under 4 lbs per lb	83¢
CANADA GRADE "A" CRY-O-VAC FROZEN CHICKENS 5 to 7 lbs per lb	$1.09
PREVIOUSLY FROZEN CHICKEN LIVER per lb	55¢
PREVIOUSLY FROZEN BEEF LIVER sliced, skinned & deveined per lb	59¢
READY TO EAT WHOLE OR HALF LEG OF HAM BONE IN per lb	$1.35
SMOKED SHANKLESS PICNIC per lb	$1.09
STEINBERG SLICED RINDLESS BACON 1 lb	$1.45
STEINBERG FRESH TOURTIERE 20oz	$1.65
STEINBERG FRESH SHEPPARD PIE 454g	$1.15
HIGH LINER FROZEN BOSTON BLUE FILLET 1 lb	$1.22
BLUE WATER FROZEN HADDOCK FISH STICKS 10 oz	$1.55

Yes, Steinberg is on your side.

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Chairman

Nathan Steinberg
Vice-Chairman

André Charron, Q.C.
President
Lévesque, Beaubien Inc.

Mitzi S. Dobrin

James N. Doyle

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Vice-President &
General Merchandise Manager —
Hard Goods

Brahm Steinberg
Vice-President &
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Soft Goods

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President

Cartier Sugar Ltd.

John A. Lang
President

Intercity Food Services Inc.

Lewis Steinberg
President

Edy Lackman
Vice-President &
Director of Marketing

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Regina, Calgary and Vancouver

Registrar

The Royal Trust Company
Halifax, Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

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Toronto Stock Exchange

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